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SUBJECT: CAMBODIA: ECONOMIC DOWNTURN HIGHLIGHTS REMAINING  
GAPS BETWEEN UNIONS AND MANAGEMENT

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[1](#)B. PHNOM PENH 934

SENSITIVE BUT UNCLASSIFIED

[1](#)1. (SBU) SUMMARY: Given the bleak global economic outlook, labor union leaders, garment manufacturers and other stakeholders are concerned that Cambodia,s critical garment sector may face factory closures and possibly more layoffs in coming months. Labor union leaders complain about difficulties in effectively applying their understanding of Collective Bargaining Agreements (CBAs) with management. Illegal strikes, union rivalry and discrimination, and weak law enforcement continue to plague the sector. These factors, along with still nascent attention paid to productivity, will potentially dampen Cambodia,s ability to effectively compete with its neighbors in the garment industry in 2009 and beyond. END SUMMARY.

FACTORIES CLOSING AND ORDERS DECLINING? PERHAPS  
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[1](#)2. (SBU) Factory closures have been the hot topic of the garment industry for the past several months, with local media providing added attention and spin. According to Cheat Khemara, Senior Labor Officer of the Garment Manufacturers Association of Cambodia (GMAC), eleven GMAC member factories have closed down and ten others have suspended production this year. He further warns of another 30 potentially closing down in the first quarter of 2009 due to the global economic crisis and downturn in orders. The closures, however, only tell one half of the story. The perhaps less headline-grabbing truth is that there have been 21 new factory openings in 2008 according to the Ministry of Commerce, exactly equaling the number of closures and suspensions documented by GMAC.

[1](#)3. (SBU) Koy Tepdaravuth, Director of the Ministry of Labor and Vocational Training,s (MOLVT) Labor Dispute Department agrees that the number of factory closures and openings is more or less equal. He and others attribute some of the closures to legitimate bankruptcy; however he stated that some factories also shutter only to reopen under a new name once the time period for tax incentives expires in order to once again take advantage of the benefits received by a new company. According to Tepdaravuth, this practice is widespread due to the ease of movement (typically the space and equipment is rented), coupled with the ability to obtain a new investment license in one to seven days. Furthermore, in order to attract investment, the government provides huge investment tax incentives for new companies which can last up to eight years (nine for special economic zones) from the year the project derives its first profit. Such incentives include corporate and export tax exemptions and non-taxation on the distribution of dividends or profits.

¶4. (SBU) Economists, manufacturers, government officials and labor unions all agree that the global financial crisis will affect Cambodia, which is economically dependent on a garment sector that accounts for up to thirty percent of its GDP (Ref B). Mr. Khemara of GMAC predicts that thousands of garment workers will be laid off in coming months due to a steep decline in orders from international buyers. According to Khemara, buyers traditionally place the most orders between October and April. The first two months of this period have already seen a decline in orders of approximately thirty to forty percent in some factories. However, a random sampling of a dozen factories which export to Target, Wal-Mart, Children's Place, H&M, Mark Spencer, and others conducted by PolOff revealed that numbers have yet to decline, with most managers stating they have adequate orders for the next 6 months. Of more immediate concern may be the high prices of raw materials and the panic created by the global economic crisis. Some factory owners stated they have purchase orders in hand, but cannot finance raw materials because banks are no longer providing credit.

¶5. (SBU) Some factories, however, are reportedly running at less than full capacity. Chun Momthol, President of the pro-government Cambodia Labor Union (CUF), estimates that at least 20,000 of his members have been laid off due to the slowdown in production. While reftel described spot labor shortages due to stagnant wages and soaring inflation in the first half of 2008, indicators point to a labor surplus in the second half. Wages remain the same; however inflation - which determines whether a young laborer stays on the farm or comes to live near the city factory - has declined to

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approximately 15 percent, down from an unofficial high of 36 percent in May of this year. Furthermore, factory closures or relocations and decreased levels of operation to counter falling orders have resulted in more successful recruiting of workers to meet factory output requirements. All told, the number of garment workers is about 327,000 at the end of 2008, which is 6,880 less than the official number from the same period last year (NOTE: the official number from the Ministry of Commerce does not include subcontractors, which can add between three to ten thousand additional workers. END NOTE).

PRODUCTIVITY PLEASE

¶6. (SBU) Chea Mony, brother of slain labor leader Chea Vichea and president of the Free Trade Union (FTU), Cambodia's largest trade union, feels Cambodia will be able to ride out the economic crisis due to the fact that the garment sector caters to some of the low-end merchandisers, such as Wal-Mart and Sears, which Americans turn to in times of financial woe. Furthermore, the wages for garment workers remain relatively low in comparison to neighboring countries such as Vietnam, Thailand, and China. However, the conclusion of U.S. and EU safeguard measures on Chinese textile exports at the end of the year, coupled with the strong emergence of other low-wage countries such as Bangladesh, pose additional threats to Cambodia's garment industry. Garment stakeholders recognize that in order to remain competitive in an increasingly crowded market, more attention needs to be paid to improving labor productivity and to diversification.

¶7. (SBU) Currently, only a handful of Cambodian factories devote the necessary time, space and financial resources to training. The Garment Industry Productivity Center (GIPC) is a USAID program which trains factory supervisors and managers in the skills they need to increase productivity including time studies, line balancing and production controls. Since its inception in 2005, GIPC has worked with approximately 15 percent of Cambodia's factories and has been able to show a 35-100 percent increase in productivity, equaling a 400

percent return on investment. Although many factories now employ Cambodians in middle-management positions, the numbers are still low and often the positions hold little authority. The vast majority of factory owners, line supervisors and middle-managers are foreigners, mainly from China, Taiwan, Hong Kong and Korea, who see change as risky and have been difficult to engage according to GIPC. The foreign manager,s goal is simply to maintain production levels determined by headquarters, which are generally at a lower level than their actual potential. However, given the current economic climate, more discussion and emphasis has been placed on productivity and improvements to the garment sector, and experts believe it is bound to infect even the most resistant factories. Additionally, GIPC and other industry specialists maintain that with higher productivity and a well trained and skilled workforce, Cambodia can move up the value chain and begin to produce higher-quality and higher-value garments.

18. (SBU) Stakeholders have also realized the need to expand into new markets in an effort to wean Cambodia from dependence on the United States, which accounts for 70 percent of Cambodia,s textile exports with the EU accounting for a further 24 percent. At the government,s request, a delegation consisting of GMAC, the Council for the Development of Cambodia (CDC), Commerce Ministry officials, and union representatives traveled to Japan in late November to explore market options. They succeeded in securing orders for jackets and shoes for early 2009, and plan to further expand into Chinese and Russian markets in the future. Additionally, Cambodia hopes to cut into China's niche in the shoe industry. While the total value of garment and textile exports has remained more or less stagnant since 2005, the total value of shoe exports has doubled, with the majority being exported to the EU and Japan.

#### STRIKES INCREASING

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19. (SBU) Yet another aspect of industrial productivity is the need to improve worker-factory relations in order to decrease the number of short term, wildcat strikes. There were 102 strikes in the first eleven months of 2008, up approximately 40 percent from the same time period last year. Moreover, there was an 11 percent increase in the number of

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working days lost due to strikes. All 102 strikes were not technically in compliance with the labor law and therefore were considered illegal. Chea Mony, whose FTU held the most strikes in 2008, stated the unions had to resort to such measures because they cannot rely on the MOLVT when they have a dispute with factory management. Several other unions, including the independent Coalition of Cambodian Apparel Workers Democratic Union (CCAWDU), accused MOLVT officials of being inactive and corrupt. Mony maintains that the MOLVT,s labor inspectors and conciliators, weak enforcement or inaction in relation to the labor law stems from the officials' allegiance to management, from whom they routinely receive under-the-table payments. Mr. Tepdaravuth of the MOLVT denied such allegations, accusing union leaders of inciting workers to hold strikes rather than waiting for results from conciliation, mediation or arbitration. Som Aun, president of the National Alliance Chamber of Cambodia (NACC) which is comprised of 14 union federations, agreed that some of the union leaders did not use all available means to resolve the disputes between workers and management before resorting to strikes. In November, the situation escalated until it reached the level of the Prime Minister, who appealed to unions to call off all strikes during this period of economic uncertainty.

#### COLLECTIVE BARGAINING - MISTRUSTED AND MISUNDERSTOOD

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110. (SBU) The International Labor Organization (ILO) and

American Center for Labor Solidarity (ACILS), with support from USAID, have invested a significant amount of time and energy into training both employers and union representatives about Most Representative Status (MRS), whereby one union which represents 51 percent or more of the workers can negotiate on behalf of all workers, and can enter into Collective Bargaining Agreements (CBAs) with employers. To date, approximately 311 union federation and factory-level union leaders have received training, along with 60 factory management staff members. According to a Senior Program Officer at ACILS, union trainees seem enthusiastic about MRS and CBAs, but lack the education and capacity necessary to fully take advantage of the concepts. Many factory owners are able to understand the concepts, but voice concern that MRS and CBAs will not be respected. GMAC recently sent a letter to the Chairman of the Working Group on Industrial Relations stating that "minority unions will more than likely disrespect the authority of MRS," and that they have "no confidence that the CBAs will be enforceable."

¶11. (SBU) The future of MRS is hopeful, but given the lack of understanding on the part of the unions and concerns voiced by the employers, the potential for wider adoption of CBAs is still shaky. Thirty-four unions have received MRS since the education campaign began earlier this year, and over 90 are in the process for 2009. However, there are still only six active CBAs in the garment sector. ILO and ACILS focus their efforts and training on unions which have received or are about to receive MRS. A quick analysis of ILO training and GMAC strike data shows that only 3 strikes were conducted by MRS unions in 2008, showing that the presence of a MRS union in principle reduces intra-union competition and is a stabilizing force for Cambodia,s garment sector.

¶12. (SBU) However, there are still currently over 1300 unions in the garment sector, amounting to approximately three per factory. Union leaders are finding it increasingly difficult to work together, with some unions created simply to collect dues from members or to extort money from employers rather than advocate for workers rights. Chea Mony of FTU told Poloff that more than twenty FTU-affiliated factory-level union leaders have been dismissed, and three others beaten by members of pro-government unions this year. Although the beatings were reported to police, no one has been arrested for the crimes. Mony himself was the recipient of an anonymous death threat emailed to him in August.

¶13. (SBU) COMMENT: 2008 has been a tumultuous year for the garment industry in Cambodia. High inflation caused some workers to find alternate employment during the first half of the year creating spot labor shortages in some factories, only to be reversed in the second half of 2008 with lower inflation, fear of diminishing orders, and fewer factory jobs. Throughout it all, endemic problems within the Cambodian labor movement persist, namely union rivalry, discrimination against independent unions and union leaders, weak labor law enforcement, and low worker and union

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capacity. At the same time, while MRS unions are growing, the acceptance of CBAs is slower than desired. The problems taken as a whole have created increasingly poor relations between unions and management, resulting in more strikes. Both unions and management have yet to adequately focus on the elephant in the room related to the survival of Cambodia,s garment sector: productivity. Continued poor productivity and strained industrial relations will have significant consequences for the competitiveness and sustainability of Cambodia,s garment industry. Although industrial relations have improved modestly in recent years, more dialog, time and training will be needed in order to move to the next level. END COMMENT.  
RODLEY